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SCIENCE AND TRANSPORTATION
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THE STATE OF SCHEDULED AIR SERVICE AT SMALL COMMUNITIES

Good morning. I'm very pleased to be here today. My name is Dennis DeVany, and I work in the Essential Air Service Program, or EAS as many of you know it. I was originally hired by Pat Murphy, whom many of you know and who just retired last week, back in 1978 and I've been working in EAS since then, and for the last several years as head of the program.

I'd like to use this hearing as an opportunity to share with you a few observations and some of the major issues facing the EAS program based on my perspective of 20+ years in the EAS program. But first a little background. Under the program, the Department guarantees that eligible small communities receive a least a minimum level of air service, typically two or three round trips a day to a major airport. Where service is otherwise uneconomic, we pay subsidy to carriers that are willing to provide that service. At one time, in the early 1980's, we spent over $100 million subsidizing scheduled service program-wide for over 300 eligible communities. Today, with a $50 million annual budget, we subsidize service at 27 communities in Alaska and 76 in the rest of the U.S. For example, in Montana the Department supports subsidized service by Big Sky Airlines at seven communities in the eastern part of the state: Havre, Lewistown, Glasgow, Wolf Point, Sidney, Glendive and Miles City. Service is generally two round trips a day to Billings. The total subsidy amount we pay to Big Sky is about $4.8 million. Approximately 21,000 passengers per year use this service to gain much needed access to the national air transportation system.

Now a few observations. First, carriers' operating costs have been rising rapidly for a number of reasons, and that translates directly into increased subsidy costs as our subsidy makes up the difference between expenses and revenues, plus a small profit margin. To begin with, many commuter carriers have been replacing their 19-seat aircraft with 30-seaters. This trend began about a decade ago, but has really begun to snowball within the last couple of years. There are now fewer and fewer 19-seaters in operation as many commuters upgrade to 30-seaters, and even regional jets in some cases. The carriers' choice of aircraft is, of course, a matter beyond our control.

Another development affecting the EAS program has been the upgrading of commuter services from FAA Part 135 to Part 121 standards within the last couple of years. As with the introduction of larger aircraft, the higher costs that commuter carriers encounter in meeting Part 121 standards are passed on to the program.

In addition, the high costs of operating at Denver International Airport, which opened in 1995, are well known. As it happens, a large number of the communities that we subsidize are located in a region that makes the Denver hub their most logical link to the national air transportation network. In fact, 20 of the 76 subsidized communities, not counting Alaska, receive subsidized service to DIA. The relatively higher costs that commuter carriers face in operating subsidized routes into DIA are, again, passed on to the EAS program. On the other side of the ledger, there is some good news to report. DIA is operationally better than Stapleton and this has resulted in more reliable and a higher quality of service.

Beyond increasing costs, the program suffered a major setback in 1995, when Congress prohibited us from meeting a major budget reduction by eliminating some communities while maintaining viable service levels at the rest. Instead, we had no choice but to reduce subsidy at *all* communities -- reductions from 18 to 10 round trips a week were typical. Needless to say, the service reductions had a severely deleterious effect on traffic levels.

In fiscal year 1998, the program's sunset date was removed and a $50 million annual budget was authorized. We used that increased funding level generally to restore service to the pre-1995 reduction levels. Of course in the case of Montana we took that opportunity to work with Big Sky Airlines not only to restore previous service levels, but also to enable the carrier to upgrade its fleet from the older, 15-seat Metro II aircraft to the more modern, 19-seat Metro III's. For those service and aircraft upgrades, we increased the amount of Big Sky's subsidy rate from $3.1 to $4.8 million a year. I am convinced that nothing is more important to a responsibly and efficiently run program than *stability* in order to attract and maintain carrier interest in the program. The current pilot-shortage problem that commuters are struggling with, which affects the carriers' ability to provide reliable service, is obviously another cause of instability.

Another development that has been hampering the program is the dwindling number of interested carriers. As major carriers have come to dominate various hubs, their commuter affiliates have come to dominate regions surrounding those hubs. Unfortunately, the majors are, at best, reluctant to have their commuter code-share partners involved in the program, and it is very difficult for prospective new entrants, without code-share affiliations, to gain a toehold in the market. Because a vital element of the program has been the competitive bidding process, the dearth of participating carriers has undoubtedly resulted in our paying higher subsidies than might otherwise be necessary. Today only three carriers account for service at 58 of the 76 subsidized EAS communities in the 48 states and Hawaii.

I appreciate this opportunity to bring you up-to-date on the challenges we're facing, and look forward to working with you to meet those challenges. I'll now be happy to answer any questions you might have.